

Exempt Organizations Annual Reporting Requirements – Schedule R (Related Organizations and Unrelated Partnerships)

The questions below relate to [Schedule R](#) (*Related Organizations and Unrelated Partnerships*) to [Form 990](#), *Return of Organization Exempt From Income Tax*.

1. Schedule R, Form 990, requires certain information reporting regarding related organizations. What are related organizations for purposes of Schedule R?

Related organizations are organizations that stand in a parent/subsidiary relationship, brother/sister relationship or supporting/supported organization relationship. Supporting and supported organizations are defined in section 509(a)(3) and 509(f)(3). Determination of the first two relationships depends on a definition of control set forth in the [Form 990 instructions](#) glossary and [Schedule R instructions](#). The definition of *control* depends on whether the organization has owners or persons with beneficial interests.

2. In deciding if an organization is related for purposes of Schedule R, Form 990, how is control defined for nonprofit organizations and organizations without owners or persons with beneficial interests?

There is a parent/subsidiary relationship between such organizations if:

- one organization (the *parent*) has the power to remove and replace, or a continuing power to appoint or elect, a majority of the directors or trustees of the other organization (the *subsidiary*).
- there is a management or board overlap situation where officers, directors, trustees, employees, or agents of the parent constitute a majority of the directors or trustees of the subsidiary.

There is a brother/sister relationship between such organizations if the same persons constitute a majority of the members of the governing body of both organizations or if the same entity or person controls both organizations.

3. In deciding if an organization is *related* for purposes of Schedule R, Form 990, how is *control* defined for nonprofit organizations and organizations with owners or persons with beneficial interests?

There is control if one organization (the *parent*) owns more than 50 percent of the other organization (the *subsidiary*), as follows:

- more than 50 percent of the stock (measured by voting power or value) of a corporation;
- more than 50 percent of the profits or capital interest in a partnership (or limited liability company (LLC) treated as a partnership); or
- more than 50 percent of the beneficial interests in a trust.

There are also several special rules for treating a partner or member (the *parent*) as controlling a partnership or LLC (the *subsidiary*):

- an organization that is one of three or fewer managing partners or managing members is deemed to control that partnership or LLC;
- an organization that is one of three or fewer general partners in a limited partnership is deemed to control that limited partnership; and
- the sole member of a disregarded entity controls the disregarded entity (for example, a single-member LLC).

In the first two situations, control in fact typically exists regardless of the level of economic ownership in the entity.

4. What information about a related organization is required to be reported on Schedule R, Form 990?

Parts I-IV of [Schedule R](#) all ask for the related organization's name, address, employer identification number, primary activity, legal domicile and direct controlling entity. They also ask for certain other types of information depending on whether the related organization is a tax-exempt organization, a disregarded entity, a taxable corporation or a partnership for federal tax purposes, as follows:

- Tax-exempt organization:
 - its exempt Code section (such as 501(c)(6))
 - if exempt under section 501(c)(3), its public charity status
 - whether the related organization is a controlled entity of the filing organization under Code section 512(b)(13)
- Disregarded entities:
 - total income
 - end-of-year assets
- Taxable corporation or trust:
 - share of related organization's total income
 - share of related organization's end-of-year assets
 - percentage ownership
 - related organization's entity type (C corporation, S corporation, or trust)
- Partnership:
 - percentage ownership
 - share of related organization's total income
 - share of related organization's end-of-year assets

- related organization's predominant type of income (related, investment, or unrelated)
- unrelated business income amount (if any) reported in the partnership's [Form 1065, Schedule K-1](#), box 20
- whether the partnership makes disproportionate allocations
- whether the filing organization is a general or managing partner or member

5. Schedule R, Part V, Form 990, requires reporting of transactions between the filing organization and its related organizations. Do all transactions between the filing organization and its related organizations have to be reported?

No. Schedule R, Part V, line 1, requires check-box reporting of whether the organization was engaged in certain kinds of transactions with any related organizations. The following transactions must be reported in greater detail in line 2:

- all transactions described in line 1a, which includes all receipts or accruals of interest, annuities, royalties or rent from a controlled entity under section 512(b)(13), regardless of amount.
- transactions described in lines 1(b) through 1(r) with controlled entities if the amounts involved during the tax year between the filing organization and a particular controlled entity exceed \$50,000.

Section 501(c)(3) organizations must report additional information on line 2. Such organizations:

- must report transactions with related tax-exempt organizations not described in section 501(c)(3) (including section 527 political organizations).
- in particular, must report the name of the related organization, the type of transaction and the amount involved during the filing organization's tax year (even if the transaction was entered into by the parties in a prior year).
- should aggregate transactions of the same type with the same related organization.
- may disregard and not report transactions of a specified type with a particular organization if the total amounts related to those transactions during the tax year do not exceed \$50,000.

6. **What is the difference between a *related organization* and a *controlled entity* for purposes of Schedule R, Form 990? Why does the IRS require certain transactions between the filing organization and a controlled entity to be reported on the schedule, even if the transaction amount is less than the reporting thresholds applicable to other transactions with related organizations?**

A *related organization* for Form 990 purposes is defined by the glossary and instructions. A *controlled entity* is one type of related organization, whether tax-exempt or taxable, that is defined in Code section 512(b)(13) to include subsidiaries that are more-than-50 percent controlled by the organization. Code section 6033(h) requires controlling organizations to report certain controlled entity transactions, including loans, fund transfers, and receipt of interest, annuities, royalties or rents from the controlled entity, on their Forms 990. Use [Schedule R](#) to report this information. Because receipts or accruals of interest, annuities, royalties or rent from a controlled entity are subject to special tax treatment under section 512(b)(13), they must be reported regardless of amount.

7. **Besides Schedule R, what are some other examples of parts of the Form 990 and schedules that require the filing organization to provide information about certain of its related organizations?**

- Part VII, Compensation—compensation from related organizations
- Part VI, Governance, line 1b— must take into account transactions with related organizations in determining independence of members of governing body
- Part VIII, Statement of Revenue, line 1d--contributions from related organizations
- Part X, line 25, Form 990, and Schedule D, Part V, line 3--endowment funds held by related organizations
- Schedule D, Part X--payables to related organizations
- [Schedule H](#), Part VI --states in which a related organization files a community benefit report on behalf of filing organization
- [Schedule M](#), Part I, line 32--whether any related organization solicits, processes or sells noncash contributions for filing organization

The same definition of related organization used for [Schedule R](#) (described [in Meaning of Related Organization](#), [Meaning of Control - Organization Without Owners](#) and [Meaning of Control - Organization With Owners](#)) is used for these other reporting requirements.

Because information regarding related organizations is required in various parts of the form, the Sequencing List in the [Instructions](#) (page 5) recommends determining the related organizations as one of the first steps in preparing the Form 990.

8. Why does Part VI of Schedule R, Form 990, require information regarding certain partnerships even though they are not related organizations?

Some exempt organizations participate in joint ventures and other arrangements in which the organization does not have a controlling interest that satisfies the Form 990 definition of related organization. These arrangements might lead to activities that result in unrelated business income tax, private benefit, inurement and other exempt status issues, especially when the organization does not control the venture or arrangement. Accordingly, Part VI of [Schedule R](#) was designed to collect information regarding participation in partnerships which are not controlled by the organization but through which the organization conducts significant activities. For this purpose, the organization must report information regarding unrelated partnerships through which it conducts activities constituting at least 5 percent of its total activities, measured by gross revenue or total assets, whichever is greater. Certain passive investment activities are excepted.

9. When is the filing organization required to treat the activities of a related organization as its own activities for Form 990 reporting purposes?

Whether and the extent to which an organization is required to include in its Form 990 the activities of a related organization depend upon the type of related organization.

- **Disregarded entities.** Except for reporting of disregarded entities in [Schedule R](#), Part I, disregarded entities are treated as part of the organization rather than as separate entities for Form 990 reporting purposes. Accordingly, all activities of a disregarded entity of which the filing organization is the sole member are to be reported

- in the filing organization's Form 990. See Appendix F, Form 990 instructions, for more information on how activities of disregarded entities are to be reported on certain lines.
- **Partnerships.** In general, the activities of a partnership are treated as the activities of the filing organization, in accordance with the filing organization's proportionate interest in the partnership. See Appendix F for more information on how activities of partnerships are to be reported on certain lines.
- **Corporations.** In general, the activities of a corporation in which the filing organization has an ownership interest are not treated as the activities of the filing organization, unless the corporation (1) is acting as the filing organization's agent, or (2) the corporation is a sham (for instance, lacks a bona fide business purpose and is not conducting business).

10. Should a filing organization report on Schedule R, Form 990, other organizations in which it has an indirect ownership interest, such as second and third tier subsidiaries?

Yes, if the filing organization directly or indirectly controls the other organization. For this purpose, the constructive ownership rules of section 318 of the Code apply to determine control of a corporation, and similar principles apply to determine control of a partnership or trust.

For example, if the filing organization X owns 80 percent of a taxable corporation Y, and Y holds a 70 percent profits interest as a limited partner of a limited partnership Z, then X is deemed to own 56 percent of Z (80 percent of Y's 70 percent interest in Z). Thus, X controls both Y and Z, which are therefore both related organizations with respect to X. X would report Y in [Schedule R](#), Part IV, and would report Z in Schedule R, Part III.

These constructive ownership rules also apply to determine whether the filing organization is controlled by or under common control with another organization.

11. What are the related organization reporting requirements for exempt organizations filing group Form 990 returns?

Appendix E to the [Form 990 instructions](#) contains special group return rules for reporting information on behalf of a group in a group return, including special rules for [Schedule R](#), Form 990. In general, central and subordinate organizations in a group exemption are not required to be reported as related organizations in Schedule R, Part II. All other related organizations of the central and subordinate organizations are required to be listed in Parts I, II, III and IV, as appropriate. Certain transactions with

such organizations must be reported in Part V, regardless of whether a central or subordinate organization in a group exemption must be listed as a related organization.

12. What are the related organization reporting requirements for organizations filing Form 990-EZ?

Only two lines in [Form 990-EZ](#) pertain to related organizations. Line 45 asks whether the organization has any controlled entities, because the organization must file Form 990 and not 990-EZ if there was a transfer of funds with a controlled entity. Also, line 49 asks whether the organization (if a 501(c)(3) organization) made any transfer to a related tax-exempt organization other than a 501(c)(3) organization and, if so, whether the related organization was a section 527 organization.

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